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ECONOMIC DIMENSION OF HARMONIZING PERSONAL INCOME TAXATION IN THE EUROPEAN UNION COUNTRIES

EKONOMICZNE UWARUNKOWANIA HARMONIZACJI PODATKU DOCHODOWEGO W KRAJACH UNII EUROPEJSKIEJ

ЭКОНОМИЧЕСКИЕ УСЛОВИЯ ГАРМОНИЗАЦИИ ПОДОХОДНОГО НАЛОГООБЛОЖЕНИЯ В СТРАНАХ ЕВРОПЕЙСКОГО СОЮЗА

Abstract

Personal income tax (hereinafter referred to as PIT) has a short history, as it appeared in tax systems of EU countries as late as at the end of the 18th century. As a specific universal construction it performs two economic functions: providing financial means for covering some public expenses (fiscal function), leveling off – through its construction – inequalities in population incomes (redistribution function) and implements social functions of taxation through various tax reliefs and exemptions or the construction of the tax scale.

***Keywords**: taxation, PIT, harmonization*

Streszczenie

Podatek dochodowy od osób fizycznych (z ang. PIT - personal income tax) jest stosunkowo młodą konstrukcją w europejskich systemach podatkowych. Jest on formą daniny publicznej realizującej najczęściej pozafiskalne funkcje opodatkowania. Jako bezpośrednia forma podatku od dochodów wzbudza silne emocje polityczne pozostając najbardziej „rozpoznawalną" przez obywateli formą obciążeń publiczno - prawnych. W systemach podatkowych krajów Unii Europejskiej (UE) podatek dochodowy od osób fizycznych jest zarówno ważnym źródłem dochodów budżetowych, jak i instrumentem realizacji funkcji socjalnych, społecznych, stymulacyjnych oraz redystrybucyjnych. Mimo, iż opodatkowanie dochodów osobistych leży w kompetencji każdego z państw członkowskich, w

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wielu sytuacjach potrzebna jest koordynacja na poziomie unijnym regulacji podatkowych, mająca na celu zapewnienie swobód określonych w Traktacie ustanawiającym Wspólnotę Europejską oraz wyeliminowanie barier podatkowych w ponadgranicznej działalności obywateli państw – członków UE.

Słowa kluczowe: *opodatkowanie, podatek dochdowy, harmonizacja.*

Аннотация

Подоходный налог с физических лиц (далее - ПНП) имеет короткую историю, так как это было в налоговых системах стран ЕС уже в конце 18 века. В качестве конкретной универсальной конструкции он выполняет две экономические функции: предоставление финансовых средств для покрытия некоторых государственных расходов (фискальная функция), выравнивание – благодаря его составным элементам - неравенства в доходах населения (функция перераспределения) и осуществление социальных функций налогообложения посредством различных налоговых льгот, а также освобождения от налогов или конструкции налоговой шкалы.

Ключевые слова: *налогообложение, подоходный налог, гармонизация*

Introduction

Politicians and economists have been trying to create an ideal tax system for over two centuries. The emergence of such permanent system in each state is impossible, as political, social and economic conditions of fiscal policy vary in time, as well as the features of a tax system – including the way of integrating social insurance contributions with income tax – that are considered ideal. Reforming, harmonizing and integrating the tax system is thus a continuous process, arousing numerous controversies related to the nature of the target system and ways of achieving it. Ideological and doctrinal differences lead to serious disputes among politicians of various political parties as well as among economists.

Personal income tax (hereinafter referred to as PIT) has a short history, as it appeared in tax systems of EU countries as late as at the end of the 18th century. As a specific universal construction it performs two economic functions: providing financial means for covering some public expenses (fiscal function), leveling off – through its construction – inequalities in population incomes (redistribution function) and implements social functions of taxation through various tax reliefs and exemptions or the construction of the tax scale. Contemporary personal income tax in European countries has been shaped by many years of evolution. This process is continuing, taking into account the process of European integration and the processes of standardizing and harmonizing tax systems in the European Union countries. Most EU states only occasionally implement major reforms of personal income taxation. The scope of such changes is usually limited and determined by current fiscal needs or the need to stimulate a particular behavior of taxpayers (European Tax Handbook 1998-2016).

The current taxation of personal incomes is a very complex phenomenon which should be analyzed not only from the legal point of view, but also taking into account its social, cultural, economic and political and system aspects. We cannot isolate the economic sphere from the tax sphere, as income taxes directly affect the way taxpayers function, their purchasing power, they determine labor costs for entrepreneurs and thus significantly influence the GDP growth rate. The issues of harmonizing taxation of incomes obtained by individuals who do not act as economic operators is practically absent in scientific literature. The only issues that are analyzed are those related to taxation of incomes from savings, transfers, capital gains, mergers and divisions. This is so because it is required by the nature of conducting economic operations within the common market. Taking into account the characteristics of personal income tax, the issues of tax competition and significant differences in PIT constructions in EU countries, it was decided to assess whether it possible and desirable to harmonize this form of taxation with reference to individuals who do not act as economic operators.

As for the legal solutions in tax law, the doctrine commonly accepts the view that taxes and the whole tax system should be neutral and should perform only the fiscal function of taxation. This means that taxes should be constructed so as not to hinder the existence and operations of taxpayers, but also so that they do not contain any preferences for selected groups of taxpayers. Favoring tax neutrality does not determine the negative attitude to achieving non-fiscal goals of the state through tax preferences. For example, using various forms of tax preferences may be a consequence of subjectively understood tax equity. Such equity requires noticing different material, family and social situation of each taxpayer. Non-fiscal functions of taxation are best realized by income taxes due to their specific construction (Wołowiec & Suseł 2010; Wołowiec & Wolak 2009,; Wołowiec 2003). Non-fiscal aspects of taxes gained popularity under the influence of J.M.Keynes theories. In classical economics, taxes were treated exclusively as a source of means for covering necessary public expenditure. In Keynes' theory, taxes became a major instrument used by the state to influence the economic cycle. Stability of the economy within the anti-cyclical policy, along with the need to stimulate global demand, accounted for the growth of stability and redistribution functions of taxation. A result of such approach to using taxes in fiscal policy was seen in growing budget deficits and public debt and growing level of tax burden. This led to the popularity of neo-liberal theories, the most popular of them being the supply side economics. It claimed that high tax burden generates low level of savings, high inflation and low productivity and innovativeness of the economy (Wołowiec & Soboń 2012, Soboń & Wołowiec 2011).

Although personal income tax is commonly used to achieve various economic and social goals, its fiscal function is still considered the most important one. We should also observe that the doctrine quite commonly tries to promote the thesis of tax neutrality as a specific panacea for weakened economic growth of EU countries and deteriorating competitiveness of European economies. The belief in tax neutrality stems from the fiscal function of taxes. According to some representatives of the doctrine, we should not use taxes to achieve various social goals, often contradictory to fiscal requirements of the state. It is difficult to agree with the concept of tax neutrality, as it impossible in practice to separate tax law from the influences of broadly understood politics. Moreover, the thesis of tax neutrality was easy to defend when taxes constituted below 20% of GDP share. In many countries these days tax revenues reach or even exceed half their GDP. Therefore, such large-scale redistribution brings about serious economic and social effects. (Wołowiec 2009; Wołowiec & Suseł 2009).

Harmonization of taxes in the European Union is very closely tied with the concept of the common market. If this concept is to make sense, we must, first of all, fulfill the requirement of equal rights for each market participant, that is each entity from any member state. Due to the fact that entities compete mainly in prices, the factors affecting it should be similar in all member states (harmonization of indirect taxes). Tax harmonization is a process leading to standardization of tax systems in various countries. The process aims at achieving a state in which tax issues do not influence the flow of goods, services and production means between countries. Harmonization is necessary when the differences in tax systems between particular countries account for the fact that decisions made by one or a few countries bring particular effects to other countries. Thus, it all boils down to harmonizing tax systems of various countries and to ensuring that their functioning is in line with EU's economic goals. Tax harmonization is a necessary element of economic integration, its degree closely related to the level of integration advancement.

History of harmonization

The imperative for harmonization of direct taxes, including personal and corporate income taxes and taxes on property gains, was not clearly stated in the Treaty establishing the European Economic Community. The legal base for initiatives in harmonization processes was Article 100 of the Treaty, stipulating harmonization of those regulations that directly affect the creation and operation of internal common market. The process of direct taxes harmonization covered different income tax regulations which limited the freedom of income flow in form of dividends, interests, license fees and capital between Community members (this will be discussed in a separate analysis of the principles of capital income taxation).

We should remember that the principles of income taxation in EU countries do not constitute such an important area of harmonization as indirect taxes. It is assumed that the differences found in direct taxations are less dangerous for the functioning of the common market. Moreover, harmonization of these taxes is much more difficult than indirect taxes, both from the political, technical and legislative points of view. Only some elements of corporate income tax are being harmonized, as they relate to international aspects of company operations that could cause potential discrimination in treatment of home and foreign companies and which refer to avoiding double taxation. Probably further elements of corporate income tax will be harmonized next – tax rates and taxation base. Areas of PIT harmonization: taxation of incomes from savings paid out in form of interests and mutual administrative assistance in tax issues. The main element differentiating direct taxation is its slight degree of normative harmonization. It is commonly believed that direct taxes exert less destructive influence on the functioning of common market, therefore work on their harmonization started later, lasted longer and did not go as far as in case of indirect taxes. Direct tax regulations in the European Union are left at the discretion of member states (except for the need to observe the areas presented in the table). Particular member states enjoy significant freedom in shaping their home solutions in this area. However, they are obliged to treat home and foreign operators equally as far as taxation is concerned (Wołowiec 2008; Wołowiec & Duszyński 2008).

Scope of harmonization

There are several reasons for relatively low scope of harmonization.

Firstly, when signing the Treaty of Rome, it was believed that direct taxes do not significantly influence the internal market, as a result of which there are no specific regulations on harmonization of direct taxes. Thus, community law in direct taxes can only be based on general regulations of Article 94 of the Treaty establishing the European Community, which authorizes the Council to pass directives in order to bring closer statutory, enforcement and administrative provisions of member states that directly affect the establishment or operation of the common market.

Secondly, income taxes, as direct forms of taxation are an important and valuable tool of fiscal policy used by particular states, influencing social and economic life and it is hard for politicians to get rid of this form of exerting influence .

Thirdly, directives concerning harmonization of direct taxes must be passed with majority of votes, which accounts for lack of unanimity in this area.

Fourthly, progress in income tax harmonization evokes the fears of losing tax sovereignty and leads to stiffening positions by member states towards processes aimed at harmonization of income taxes.

Fifthly, EU countries have various rules of rewarding employees, establishing incomes from pensions and shaping costs of obtaining revenue and expenses lowering taxation base.

The first document emphasizing the need for direct tax harmonization was Neumark Committee Report from 1962. Following the concepts presented in it, the Community Committee presented a program of harmonizing direct taxes in 1967. It included all main ideas which, in the following years, were gradually implemented by the Community legislation or are still an element of harmonization program. The most important issues raised by this document were:

1. Integration of corporate and individual income taxation.
2. Abolishing income tax collected at source for dividends and interests.
3. Abolishing tax consequences of mergers between companies with registered seats in different Community states.
4. Standardization of personal income taxation rules.
5. Fighting tax avoidance in community internal relations.

Harmonization of direct taxes mainly refers to corporate taxation (CIT). In the area of CIT the main activities concerning eliminating tax barriers in international companies operations were taken in July 1990 in form of community laws, concerning:

1. Common system of taxation of mergers, divisions, capital contributions and changes in shares of companies from various member states (Directive 90/434/EEC – OJ L225/90).
2. Joint taxation of parent companies and subsidiaries in various EU countries (Directive 90/435/EEC – OJ L225/90).
3. Eliminating double taxation in case of profit correction of associated companies (Convention 90/426 EEC).

The only directive concerning personal income taxation is the one from 3rd June 2003 (2003/48/EC) on taxation of savings income in the form of interest payments (Druesne).

As far as taxation of personal income from remuneration is concerned, all attempt of harmonization have been limited to various proposals on joint principles of determining taxation base, size of tax rates and methods of shaping tax progression. Taking into account PIT specificity and detailed general issues of income tax harmonization, I believe that for personal income taxation we can only expect bringing closer some system solutions being the result of leveling the development level in member states and improvements of tax techniques and popularization of its most effective solutions. On 23rd June 2011 the European Commission issued a statement on tax policy aims for next years (COM(2001)260 final). Apart from the above directive, EU countries have been given freedom in shaping other principles of personal income taxation. In this sense, principles of personal income taxation are not an adjustment area form the Polish solutions . The European Union countries independently decide on the structure of costs of obtaining revenues, scope for tax reliefs and exemptions, progression shape, etc. (Wołowiec). In spite of the lack of directives normalizing principles of individual income taxation, such principles are self-created and burden levels equalize. We can say that due to the principle of competitiveness included in the tax law, member states make adjusting attempts in adopted tax constructions. This is to increase attractiveness of their tax systems.

Competition between tax systems forces certain solutions in national tax systems, aimed at bringing constructions of certain taxes closer, in order to ensure optimal functioning of the common market. Thus "quiet harmonization" is a consequence of progressing competition among national tax systems in particular taxation forms (Wołowiec). The effect of quiet harmonization is bringing closer construction solutions in personal income tax in European Union states (Wołowiec 2006; Wołowiec 2004)

With reference to PIT, it was emphasized that the tax should remain at discretion of member states. The only harmonization activities should concern removing barriers to four economic freedoms and providing uniformity of taxation.

Similarities in the personal income tax in Community states concern the following areas (Krajewska, Wołowiec, Taxation Trend in the European Union):

- The tax is related to total (global) income of a taxpayer,
- Scales are progressive with various numbers of ranges and minimum and maximum tax rate values,
- Most countries use tax-free amounts,
- Tax burdens are usually adjusted to inflation rate through the system of automatic or semi-automatic indexation of changes to tax thresholds,
- Personal income tax reflects the principle of taxpayer's payment capacity through its varied system of tax reliefs and exemptions;
- Different rules are used for taxation of family incomes, revenues from selling property and movable assets and capital incomes,
- There is a varied system of costs of obtaining revenues, related to the way in which revenue is gained,
- It does not differentiate tax burden due to sources of revenues from which it is obtained and its allocation,
- Income tax contains tax preferences related to the way the income is spent.

A feature of direct taxes is that there is a clear connection between the taxpayer's situation (income, property) and tax burden. From the psychological point of view indirect taxes are the most hated sacrifice to be made by the taxpayer. Direct taxes may de-motivate the taxed entities. Excessive tax burden may slow down income activity of entities, which may result in not only slower economic growth, but in its disappearance as well. That is why not only the amount of tax burden in a particular country matters, but also the structure of the whole tax system and the construction of particular taxes. In case of direct taxes tax scales are vital. In a theoretical presentation, tax as an economic category is a subject of numerous analyses, both referring to individual taxpayers, their groups and the whole economy. This concerns both indirect and direct taxes. Despite impressive theories of economics, theories of public finance, hundreds of years of experience, tax issues are still a controversial topic, which is evident in a discussion on line tax. The deficit of theories and polarization of opinions concerns the role of tax in micro-economics, where it would seem easy to determine the relationship between tax burden, tax scale and an economic situation of taxpayers and the decision made by them. This results from the fact that the taxpayer's situation is affected by a number of other factors, therefore it is difficult to isolate the tax factor, if we do not take into account abstract analyses. The situation is further complicated when the subject of our analysis is the influence of a particular tax on the whole group of taxpayers or the whole tax system on economy (for example the theory of automatic stabilizers in business cycle). The difficulty of tax analysis concerning tax influence on entities and economy increases if we go beyond the boundaries of the state with such analysis. Tax relations are further complicate and tax effects are even more difficult to assess or quantify. This is an important statement, as it partly explains the source of controversies concerning opposite tax doctrines – tax harmonization versus tax competition (Cremer, Gahvari). To exemplify the difficulties we will use the phenomenon of transferring direct taxes. Direct taxes may concern: income from work – income from economic activities, income from property and property rights, income from capital and from money savings. The subject of direct taxes is then the resources of work, land, physical capital, financial capital – essential factors (basis) of economic activity. Therefore, how particular factors react to imposed taxes and changes is of fundamental significance. Also, the flexibility of various factors to tax changes is vital (marginal analysis). The theoretical analysis of the effects of taxation differentiation may be conducted on various levels. We enumerate a few of them below:

- tax influence on labor costs. High taxes increase labor costs, as income after taxation (disposable income) is low, which is a natural basis for employees' pay demands from employers, which implicates the position of the enterprise on competitive market and company profitability. It is understood that differentiation of tax conditions between countries (regions) exerts considerable influence on conditions of conducting business activity;
- changes in direct taxes always bring about changes in marginal production costs;
- taxes always constitute a burden on a given entity, therefore there is a defense reaction of a taxpayer who tries to transfer this burden onto other subjects. Hundreds of years of observations of taxpayers' reactions allows us to state that it is easier in case of indirect taxes and more difficult with direct taxes. Income taxes are not transferrable and the taxpayer's reaction may only consist in limiting income activities. This is especially visible

in progressive tax scales, whose use increases marginal taxation and decreases marginal income. The final decision of a taxpayer in this matter implicates the income usefulness curve;

• the issue of direct tax transferability looks different in case of taxing an employer than an employee. The employer will try to transfer the increase of tax rates into manufacturing costs and then into prices. His possibilities depend on the type of taxed goods and the state of the market (competition), which is manifested in price flexibility of demand. The chances of transferring increased tax burden grow with lower price flexibility of demand. The second possibility consists in transferring the tax effects on employees by reducing their salaries. This constitutes the so-called retro-transferability, usually ineffective, as employees oppose such practices. The degree of transferability of increasing taxes on employees depends on the state of the labor market, unemployment rate, labor market flexibility and openness;

• measuring the phenomenon of tax transferability is difficult even in case of a closed economy, as the effects of growing taxes may be distributed, for example, into prices, non-pay manufacturing costs, entrepreneur's profit margin. These difficulties are multiplied in an open economy, as the mechanism of tax transferability affects the society (economy) of another country. In its theoretical meaning, tax (fiscal) dumping means that redistribution of social income takes place between countries through taxes. This is especially visible when countries belong to a uniform economic association, which has a mutual fund – budget, which also serves as a source of income for member states' budgets. The use of tax dumping means that part of income is transferred in an open or hidden way (transfer prices) to countries with lower taxes. An effect of this is further increase of taxes in countries which do not use tax dumping, as the budget increase its revenue deficit, or limiting expenditure, or increasing public debt. It should come as no surprise then that after admission of 10 new countries to the EU, France and Germany threatened to stop their payments to EU budget due to considerably lower corporate income tax rates in such countries as: Slovakia, Poland, Czech Republic and the Baltic states, where entrepreneurs began to move their economic activity. We should add today that it happened with closed labor markets (Wołowiec 2011; Wołowiec & Soboń 2011).

Internationalization of economic relations and economic integration

In times of internationalization of economic relations and economic integration, the mechanism of tax transferability is becoming international. This concerns both taxation of income from work as well as income on economic activity, interests, capital gains, etc. Personal decisions concerning taking up work – assuming that there are formal restrictions in flow of labor between countries – are determined by salaries and taxes. Therefore, we experience a natural phenomenon of work migrations to places where pay and tax conditions are more favorable. While in case of taxation on incomes from work, possible change of place (country) of work is easier, in case of entrepreneurs it is a more daunting venture, as it requires complying with the legislation of the country where the activity or its part (establishing dependent companies) is transferred. The mobility of labor and capital implicates the issues of tax harmonization. From the economic point of view harmonization of direct taxes and tax competition force us to consider further theoretical and legal aspects, such as:

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- effects of harmonization of direct taxes on state budget, imbalance in public finance,
- allowed scope of realizing tax economic rent by international corporations (Keen, Lahiri, Raimondos-Møller),
- mechanism of reallocation of public debt between countries due to the above-mentioned rent,
- limiting the possibility of lowering taxation of personal incomes and consumption taxes when harmonization of direct taxes leads to lower public revenues,
- effects of labor mobility on home economy due to differentiated tax conditions,
- changes in the structure of tax system in relation: indirect taxes – direct taxes, as to how these relations attract foreign investment,
- motivating national investors to invest,
- scope of using tax credit.

These issues look different in conditions of small, open economies of the countries which suffer from foreign capital deficit. The situation of developing countries undergoing the systemic transformation is different in countries with established strong position within a given economic system or global economy. Considerations take into account the element of tax equity, in its international aspect. An economic approach to the issue of harmonization of direct taxes is decisive, as it concerns the essence of the problem. However, it is not sufficient. What is more – economic goals of tax harmonization may not be achieved due to legal reasons. Tax is not only an important economic category, but also a legal one. From the legal point of view, there are some vital issues implicating jurisdiction: Firstly, the relationship between home tax law and community law. While respecting the principle of community law superiority, there are several specific issues that appear in practice.

Secondly, in what proportions to use the unlimited tax obligation in one country and to what extent unlimited tax obligation in one country with the principle of limited obligation in another country and finally to what extent to use the principle of unlimited tax obligation in both countries.

Thirdly, how to shape the agreements on avoiding double taxation.

Fourthly, whether tax should be collected at source (in the resident's country) or in the country of non-resident and in what proportions. This determines not only issues of information that needs to be exchanges between tax administration in both countries, but also the amount of tax as there are various tax rates, and different methods of calculating tax base (Wołwiec & Suseł 2011).

Novelty of research results.

The theoretical theorems, scientific conclusions, practical proposals and recommendations made by the author in this dissertation all aim at the conclusion that although harmonization of personal income taxation is possible from a legal point of view in the long run, from the economic and social perspective it is unjustified to harmonize this form of taxation. Thus, proving the thesis that there is no goal and sense in harmonizing and standardizing PIT constructions, theoretical, methodological and practical novelty of the dissertation consists in:

1. In their pure form, income taxes do not stimulate inclination for investment and savings. Income tax is a burden on the saved and spent part of income. In order to stimulate saving and/or investing, it is necessary to introduce some reliefs and

exemptions to the tax construction, granted for creating (developing) investment. The author conducted own research on the relationship between the level of fiscalism (relation of PIT tax revenues and social insurance contributions to average annual GDP growth rate, calculated with purchasing power parity per capita) and the structure of tax system, and economic growth speed for 27 EU countries in 1991-2012.

2. The research shows that in the short period of time it is difficult to prove the relationship between reduction of tax rates and GDP growth rate. Negative correlation means that the higher the level of marginal tax rates, the lower the GDP growth. The obtained correlation coefficients are statistically insignificant, that is so small that there are no grounds for rejecting the hypothesis of the existence of a relationship between the level of marginal tax rates in the short period of time. These results do not allow us to confirm the theoretical postulates of the supply side school of economics. Its advocates claim that reduction of marginal tax rates in income tax leads to lowering labor costs, stimulating consumption and production, and in consequence to shifting the global supply curve so that the balance point between demand and supply indicates higher level of GDP and prices. This activity is supposed to lead to economic growth and lower inflation. An effect of these activities may be increased trade deficit caused by growing demand for consumption and investment goods and increased capital surplus due to increased inflow of foreign capital and decreased outflow of national capital abroad.

3. Apart from the influence of the level of fiscalism on economic growth, we also analyzed and researched the structure of budget tax revenues (including quasi-taxes). It allowed us to answer how particular types of fiscal revenues affect the GDP growth dynamics. The analysis covered three tax groups. The first one comprises income taxes (PIT, CIT and taxes on capital gains), the second one – social insurance contributions and their derivatives, the third one – incomes from work (jointly PIT and social insurance contributions and their derivatives). Distinguishing the fourth group was justified by the fact that social performance can be financed with general taxes or with premiums outside the budget, as burden classified as social insurance.

4. Analyzing the influence of the share of income taxes in fiscal revenues on GDP growth rate we obtain the coefficient of Pearson's linear correlation rxy = 0.12. The obtained value of the coefficient means that there is no statistically significant relationship between the share of income taxes in fiscal revenues and average annual GDP growth rate. Similar results are obtained when examining the discussed relationship annually in particular years (with an exception of the Netherlands). Analyzing the power and direction of the correlation between PIT and CIT separately and average annual economic growth rate, we also obtain statistically insignificant relationships. The obtained coefficients of correlation are respectively rxy = 0.05 and rxy = 0.37. Therefore the share of income taxes in the structure of budget fiscal revenues does not significantly affect the economic growth dynamics (either in the short or in the long term).

5. Determining the power and direction of the relationship between the share of social insurance contributions in total fiscal revenues and average annual GDP growth rate per capita we obtain the coefficient of correlation rxy = - 0.44. This re-

sult proves the existence of negative relationship between the analyzed variables. The power of this relationship does not allow us to treat it as statistically significant, therefore the thesis of negative influence of high level of burden related to social insurance premiums on economic growth cannot be fully proved.

6. Combining personal income tax and social insurance contributions in one group, we obtain a category of incomes placing burden on work. These performances are complementary and determine the so-called tax wedge, that is labor costs (difference between labor costs – pay cost for the employer, and net pay – pay income), extremely important for the willingness of employers to create new jobs. Moreover, these terms are often used interchangeably. Examining the span between the share of particular fiscal tributes in the EU countries with their highest and lowest level, we can notice that in the EU countries the span of the PIT share indicator in total fiscal revenues was around 39% in 2012, while in case of social insurance contributions – 34%. In case of total burden of income from work, the span amounted to 21%, therefore it is justified to examine the joint influence of tributes placing burden on labor costs on economic growth.

7. On the basis of the above data we obtained the coefficient of correlation rxy = -0.55, which denotes the existence of statistically significant, negative relationship between the share of burden on income from work in fiscal revenues and the GDP growth rate. The coefficient of correlation calculated on this basis informs us that the average GDP growth rate in the analyzed years is explained in 29% by the share of burden placed on income from work in total fiscal revenues. The obtained results allow us to state that an increase of average share of burden on salaries in total fiscal revenues by 1% accounts for a decline in GDP per capita of 0.11%. Thus we can state that high level of burden on income from work negatively affects economic growth. High labor costs weaken the competitiveness of national economy, increase the tendency to escape into shadow economy and increase unemployment and, in consequence, hamper economic growth.

8. Examining the relationship (for years 1991-2012) between average annual level of unemployment (dependent variable) and average share of tributes placing burden on income from work, we will notice a strong relationship, assuming a three-year delayed reaction of the unemployment rate. With this assumption, the coefficient of correlation is rxy = 0.93. An increase of average share of burden on pay (PIT and contributions) in total fiscal revenues of EU countries causes, assuming a three-year delay, an increase in unemployment rate of 1.46%.

9. The research also shows that each increase of tax and quasi-tax burden may translate into decline in economic growth rate. The research demonstrates that the most negative influence on economic growth, especially on unemployment level, is exerted by fiscal burden which determines the so-called labor costs. Interestingly, contrary to popular beliefs, the research did not prove existence of any correlation between the influence of burden placed on economy by income taxes and economic growth.

10. The obtained results of the research do not allow us, without first conducting detailed microeconomic analyses (household prosperity level, structure of household expenses, price flexibility of demand, etc.), to propose a thesis that it is more beneficial for the social and economic prosperity to increase revenues from indirect taxation in the structure of

budget tax revenues. Lowering the burden placed by income taxes requires offsetting the lost revenues with increased indirect taxes in order to maintain neutrality of revenues. We should remember, however, that this may cause some negative consequences. First of all, increased actual rates of tax on goods and services may lead to unfavorable allocation of production towards goods with lower price flexibility of demand. Indirect taxes use consumers' usefulness preferences in order to satisfy financial needs of the budget, but the structure of the economy shifts towards goods with low flexibility of demand (basic goods). This may be a factor that weakens economic growth by reducing the market for more complex goods stimulating economy effectiveness. Secondly, the price increase caused by increased rates of indirect taxes may lead to inflation processes. If prices of consumer goods with low flexibility of demand grow, their low flexibility will not cause demand decline (or only slight one). Producers will increase prices, which will lead to multiply reaction of changes to other prices. Households will be burdened more with higher prices of basic goods and will limit their demand for more complex goods, thus lowering their prices and production. Producers limit their production and the general level of prices is determined by goods with low price flexibility of demand. Thirdly, high (growing) rates of indirect taxes, through increased price level and inflation effect, lead to lowered actual incomes of the society, lowered demand, reduced production, and, as a result, weaker economic growth rate. Fourthly, price growth, being an effect of growing rates of indirect taxes, in the long run generates pressure on increasing salaries in order not to weaken global demand in economy. This accounts for increased costs of salaries and costs of other means of production (raising their prices, their providers compensate the costs by transferring the tax burden). Thus we experience indirect burden of indirect taxes placed on enterprises on the cost side. Fifthly, price growth being an effect of increased burden of indirect taxes may lead to increased amount of money, according to the Irving Fischer exchange equation. This may account for the loss of balance in the monetary system. Sixthly, indirect taxes, by placing burden on consumption expenses, mostly negatively affect poor households (in New Member States, they generate 80& of global demand), which violates the principle of taxation equality and equity. Seventhly, increased indirect taxation of basic goods leads to society stratification as economic inequalities build up in distribution of domestic product, especially with high share of households' expenditure on basic goods (this is a typical phenomenon for NMS, according to Engel's law). As the research shows, the assessment of the influence of income taxes on taxpayers' behavior, and in consequence on economic growth, requires taking into account the whole external environment, in which taxes are one of essential elements, though this elements does not function or determine economic growth on its own. The environment may hamper and stimulate economic growth and it is shaped independent of the taxpayers' will. We should always distinguish and analyze the following elements of the environment: state of the market (prices and currency exchange rates, stan and intensity of competition, payment hold-ups, state of business cycle, etc.); social and material infrastructure (banking and insurance system, education, corruption, administration, system of justice, etc.); fiscal and monetary policy of the state (customs duties, public aid, height of budget deficit, interest rate, taxes and tax reliefs, etc.) and complex regulatory and administrative influence of the state (legal regulations in particular sectors, regulations of labor market, EU sanitary norms, shaping production quality, etc.).

11. In their pure form, income taxes do not influence the choice of socially beneficial structure of production and choice of production factors or on using technologies saving natural environment. Achieving these goals also requires application of the system of tax reliefs and exemptions.

12. Income taxes do not affect the socially beneficial structure of consumption. We can talk of appropriate structure of consumption only in case of personal income taxpayers. It does not seem possible to introduce reliefs and exemptions into the structure of this tax that would allow us to steer household expenses. Income taxes are of little use for such influence (these statements are vital both for understanding the specificity of income taxes and from the point of view of the analysis of the purpose and nature of preferences used in income taxes. Knowing the specific structure of these taxation forms, reliefs and exemptions – often given contradictory evaluations – may be justified by the implementation of socially or economically important goals).

13. Tax systems in the European Union countries are a product of long evolution and feature a lot of similarities. Similarities of Community states tax systems are the effect of the same factors affecting a particular tax policy and features of legal solutions in taxes. Such factors include: degree of economic development, social and economic systems and doctrines of economic policy, similar social, demographic and economic problems, Integration of the European economy, globalization of the world economy and principles of cooperation with international organizations. These factors are a result of similar economic and social structures, determined by similar cultural, historical, sociological and political factors. In practice, the shape of the tax system reflects the necessity to take into consideration interests of various social groups and a consequence of frequent changes in legal solutions, being an effect of political plays. As a result, the functioning tax systems are determined both by model and actual (mostly political) factors. The economic structure of the European Union countries is characterized by high level of exchange, combined with a certain tax system, whose features include: high level of tax burden, similar structure of tax systems (the core are personal and corporate income taxes and universal consumption and excise taxes), significant role of accounting and minor role of inheritance and donations tax and taxes on taxpayer's assets and real estate.

14. The tax doctrine formulates guidelines on what rational and effective tax policy the state should run. These postulates are determined in various ways, depending on adopted criteria concerning goals to be achieved thanks to tax policy. First we should ask about the functions of tax policy and then about norms and ways of their implementation. The primary goals of tax policy are presented as: efficiency in implementing the income function, efficiency in implementation of non-fiscal functions, equitable distribution of tax burden and lows costs of tax collection. Tax policy often quotes the doctrine, but in reality it may differ from it considerably.

15. Personal income taxes, due to their significance in national fiscal policy,

should not be harmonized due to their role in fiscal policy, as automatic stabilizers of business cycle. Using income taxes, we can affect taxpayers' behavior in various ways, through tax reliefs and exemptions as well as shape and structure of tax scale. It is necessary to realize national tax policy, whose specificity and economic, historical and social idiosyncrasies require freedom in constructing PIT.

16. Differentiated reward systems, various constructions of tax-free amounts, and, most of all, different level of salaries in the EU countries makes it impossible to conduct a rational and sensible harmonization of this form of taxation. Also the way of financing social insurance systems differs in the EU countries, which is reflected in labor costs structure. There are countries where social insurance contributions are small, but fiscal burden of PIT is huge (Denmark) and countries with opposite systems (Slovakia). This makes it impossible to harmonize this form of taxation, as it would require simultaneous reform of retirement systems and standardizing the level of fiscal burden, constituting the so-called tax wedge. In practice, as confirmed by the author's own research conducted within statutory research (WSB-NLU in Nowy Sącz, International Institute for Economic and Social Research & Analyses (IESRA), University of Technology Management in Rzeszów and University of Economy and Innovation in Lublin) standardization of these systems, although possible from the legal point of view, is economically unrealistic due to costs involved and complexity of such reforms but also rationally unjustified. Such activity may lead to radical increase in labor costs in 60% of EU countries, weakening their competitiveness and radically slowing down their GDP growth.

17. Personal income taxes also constitute the revenues of communes, districts and regions in EU countries. In practice this means that PIT is a differentiated construction as far as its role and importance in self-government own revenues are concerned. In some countries self-governments have their own income taxes, in others they have shares in PIT revenues transferred by central government. Local tax authorities have different entitlements, the local PIT has different levels of burden and legal construction. An attempt at harmonization would infringe the local authorities autonomy and would also require complex standardization of local governments' sources of revenue in all EU countries, which is impossible from the legal point of view and highly ineffective from the economic point of view (the author's own research). At the same time, PIT on the local level is a vital instrument of performing stimulating and regulating functions of taxation. Diverse specificity of local governments which is attributed to different development rate, historical and cultural conditions, makes it impossible to harmonize PIT.

18. Personal income taxes do not affect the freedom of people and capital movement, therefore their harmonization is not justified from a legal point of view. The research shows that harmonization may cover some aspects of taxation, such as: avoidance of double taxation, incomes from savings or the issues of determining a joint taxation base, etc. (work is in progress, though it does not seem necessary).

A theoretical analysis of the effects of tax differentiation can occur on several axes, including:

1) Impact of PIT on costs of labour. High taxes increase labour costs since after-tax income (disposable) is low and thus causes pay-increase demands from the workers and this in turn complicates the

company's competitive standing and affects its profitability (when compared to companies operating in other, more beneficial tax environments).

2) Taxes as a burden. They force a defensive response from the taxpayer in the form of seeking opportunities to transfer the burden onto other entities. Centuries-long observation of taxpayer reactions to tax burdens show that, even if desirable, burden shifting is much easier in the case of indirect taxes than direct ones (in this case the most common technique involves limiting economic activity).

3) Tax burden transferability is different for employees and employers. Increased labour costs will affect production costs and this affects final product/service prices. Opportunities open to the employer will depend on the type of the good/service under taxation and the state of the market (competition), which is defined through elasticity of demand. Non-elasticity of demand for a good will assure easier transfer of tax burdens by the employer onto the client. A second possible reaction is to transfer the burden onto the employees by lowering their wages. Opportunities here will be defined by the current state of the labour market, its openness, level of unemployment and elasticity of labour supply.

4) Measuring the transferability of the tax burden. The process is difficult even in the case of a closed economy because the effects of increasing taxes can be hidden in prices, non-wage production costs, producer profitability. These difficulties are multiplied in an open economy where the mechanism of transferring the tax burden affects the society and economy of a different nation. In a theoretical sense, "tax dumping" leads to a redistribution of income between different societies as it assures that part of the income is transferred to nations with lower taxes through transfer pricing or through the transfer of company operations to locations with favourable tax regimes. The impact on nations not operating "tax dumping" policies is a need to increase tax rates to maintain governmental revenues (for those taxpayers that remain) or reduce governmental expenditures (politically difficult) or increase national debt (finding lenders willing to fund continued expenditures) .

In the era of internationalization of economic relations and integration, the tax burden transfer mechanism becomes international, in terms of taxation on incomes, labour, economic activity, interest, capital returns, etc. Personal decisions regarding where to undertake paid employment (with the assumption that there are no restrictions on the movement of labour) will be affected by offered wages and required taxes. Income migration therefore becomes natural as people gravitate towards locations where incomes and taxes are the most beneficial. Of course, changing the location of activity is much easier for an employee than for an employer and entrepreneur as the latter two have to adapt to the requirements of the host country to where their activity is being transferred (for entire company or its part, subsidiary). Both labour and capital would therefore benefit from tax harmonisation as it would simplify operations and create a more balanced environment that would reduce the need for mobility oriented purely on seeking tax benefits.

Both tax rate harmonisation and tax rate competitiveness require additional consideration of (Wołowiec & Duszyński 2009;):

1) Impact of PIT rate harmonisation upon the state budget and possible imbalance

of public finances (harmonisation worsening national budgets, e.g. through downward integration of tax rates).
2) Impact of labour mobility upon the nation's economy (income migration further enhanced by PIT rates).
3) Impact of changes in the tax system, which affect the ratios of: indirect-direct taxes, CIT-PIT, when they are intended to draw in foreign investments.
Economic aims of tax harmonisation may be unachievable due to legal reasons, since a tax is not only an economic category but also a legal one, and its legal side is affected by:
1) Relationship between national and Community law, and when considering the supremacy of EU law over national rules, many issues emerge (e.g. conflicting regulations, different interpretations).
2) Problems of applying (and in what measures) unlimited tax duty in one country compared to applying unlimited tax duty in one country with a limited duty in the second country and, finally, how to apply unlimited tax duties in both countries.
3) How to formulate and agree upon treaties on avoiding double taxation (not only achieving consensus between nations but also following local political patterns, taxation trends).
4) Problems in whether to collect the tax in country of residence or non-residence and in what proportions.
Harmonization of income taxes is much more difficult than harmonization of indirect taxes from the practical, technical and legal perspective and is a result of:
1. When creating the Treaty of Rome it was decided that direct taxes would not have a notable impact on the operations of the internal market, and that approach led to a lack of appropriate regulations, especially in the area of personal income taxes.
2. Income taxes, as forms of direct taxation are an important tool for fiscal policy that affects social and economic activities and it is difficult for politicians to abandon this tool for managing national policies.
3. Directives requiring the formulation of direct tax harmonisation must be agreed upon with a majority vote in the national Assemblies (Parliaments), which leads to a lack of consensus on desired aims, costs and benefits, procedures.
4. Progress in direct tax harmonisation creates an aura of challenges to the tax independence if nations and leads to entrenchment of state and elite positions.
5. EU member states have different rules for remunerating employees, setting incomes from retirement funds and affecting the structure of income-generating costs and expenditures that reduce the tax base.
Despite the lack of Directives to regulate the rules of taxing personal income, the rules are emerging spontaneously and tax burdens are slowly equalising. This process is the result of competition between EU member state tax systems—nations extensively are utilising the construction of the personal income tax to utilise the stimulating functions of the tax system, which in turn impacts the possibilities open to spontaneous PIT harmonisation. Due to the effects of "quiet" paralegal harmonisation, several common PIT characteristics can be found in the EU (Wołowiec 2008):
1. Placing subjectivity on the principle of residence. Rules on limited (<183 days), and unlimited (>183 days) tax duty.
2. The dominant concept is of a global tax. Joint taxation of all incomes obtained by the taxpayer from different sources (only the rules regarding capital interests are exempt from being combined with other incomes).

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3. The tax is progressive and specific solutions concern different tax rates, types of scales, rules regarding progression and the amount of the minimal and maximum rates.
4. Tax burdens are designed to follow inflation through a system of automatic or semi-automatic indexation or through the change of tax brackets.
5. Different regulations are applied to a family income, sale of real estate, assets and investment incomes.
6. In every construction there exists a sum free from taxation and, in varying degrees, considers the minimal level of (biological) existence and costs of obtaining an income.
7. Tax burdens are considerate of, in varying degrees, state of the family and capabilities to pay through a system of rebates and deductions.
8. Multiple rebates and deductions exist that are of a simulative and social character (investment, building and renovation, health, donations).

The analysis of Union laws indicates that personal income tax harmonisation is extremely difficult due to historical, political, social and technical factors. Decisions by the European Court of Justice (ECJ) concern mostly tax deductions by individuals who are not Union residents and the deductions of contributions made to retirement funds operating outside the EU. The ECJ decisions cannot affect the rules for harmonising personal income taxes because they concern the taxing of income from savings and the exchange of tax information, while the progressing "quiet" harmonisation is rather a result of inter-nation competitiveness and not of any formal ECJ rulings.

Alongside minimal lawmaking at the European level, minimal progress of harmonization is a result of (Wołowiec):

1. Political factors: PIT payers are the largest group in any nation. Politicians are unwilling to abandon PIT techniques in pursuing regulatory and stimulatory tax functions, that are of a political nature, e.g. any activity in this are will have an impact on the political balance of the nation. PIT setting is an important and valuable tool in maintaining relations with voters.
2. PIT harmonization is not an important factor in the evolution of the Common Market. It is neutral to internal trade and does not affect intra-EU competition and as such will not become a European priority for some time.
3. PIT taxes mainly incomes from work and retirement and the level of taxation does not increase intra-EU migration (although in the long-run this may change).
4. In EU member states, social support systems are funded from different sources: taxpayer contributions, direct funding from the state budget (social security contributions are then contained within standard taxes, e.g. Denmark) and as they form part of the total "tax wedge", their harmonisation will be even more difficult (while exerting sizeable influence on the PIT system).
5. EU member states possess different systems of labour remuneration and shaping of citizen income levels, different methodologies of designing tax progression. Therefore, even creating a holistic and long-term understanding of existing complexities will be difficult.

Harmonisation in general is a difficult challenge, and any debate about harmonising PIT systems brings out major counterarguments:

1. Further loss of sovereignty in national financial policies, which will inhibit the state's ability to affect economic processes and (especially) social ones. Harmonisation of the rules for calculating the

basis for taxation and the acceptance of unified rates would mean the transfer of tax-setting prerogatives to a trans-national institution: the EU. In such a situation, each nation must conduct its own analysis of costs and benefits (of transferring those competencies versus their retention).

2. Different social models and retirement systems, when combined with varied degrees of PIT integration with retirement contributions, determine various financial needs of the state, therefore harmonisation would have to reach far beyond "mere" PIT systems.

3. Historical, cultural, social factors that have shaped national tax systems enforce claims that path-dependent process will be difficult to reverse.

4. Competitive inequality between taxpayers who operate in one market and those that function in multiple EU member states. Depending on their primary country of residence it can be an advantage to pay taxes elsewhere (when the other nation's tax regime is friendlier, e.g. for Poles employed and taxed in the UK) or a disadvantage (when British taxpayers operating in Poland or Poles earning in the UK are subject to Polish taxation).

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